

# Relation of Government Financing to Gross Income Flow

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THE cost of government and the amount of taxes collected for governmental use are frequently compared with the estimates of national income which are published annually. Ratios of government expenditures and of taxes to the national income are often used to indicate the proportions spent or taken by government out of the sum which the people of the Nation have available for consumption purposes, capital purposes, and the support of government. These ratios are misleading, for the reason that a large part of taxes are not paid out of the wages, profits, and other items which are summed to obtain the figure designated *national income*. The amount which the people of the Nation, as individuals and as owners and managers of business enterprises, have available for the three purposes of acquiring consumers' goods, replacing or increasing business plants and equipment, and support of government, is considerably greater than the national income.

In this article the term *gross income flow* is used to designate the sum which the people of the Nation have available during a given period of time for consumption purposes, business capital purposes, and the support of government. Gross income flow is an amount which arises from current economic processes, including not only production processes but also income-distribution devices such as social insurance funds and relief. However, gross income flow does not include the value of capital assets previously in existence which may be purchased or confiscated by government. For this reason the portion of the gross income flow which is used for the support of government may be slightly smaller—or in special circumstances, considerably smaller—than the total expenditures of government.

## Differences Between National Income and Gross Income Flow.

The largest element of difference between *national income* and *gross income flow* results from the fact that most or all of the taxes paid by business concerns are not included in the computation of national income.<sup>1</sup> If business concerns did not use this part of their receipts to pay taxes the money would be available for distribution as income to employees or stockholders, assuming that market prices and output were unchanged. If this money was not taken by taxes and market prices were reduced accordingly, expenditures of individuals for consumers' goods and of business concerns for capital goods would be correspondingly reduced. Individuals would then have available for additional taxes an amount equal to the taxes previously paid by business concerns.

Another important element of difference between national income and gross income flow consists of depreciation and other reserves set aside by business concerns out of the proceeds from the sale of their products. These reserves are not included in national income but are available for use in purchasing capital goods, or pending such purchases, for temporary investment in government securities or in some other way.

The third difference between national income and gross income flow results from the payment of pensions, Social Security and retirement benefits, and relief from trust funds or governmental budgets. Receipts of individuals from these sources are mixed with any other income which those individuals may have for use in the purchase of consumers' goods and services, payment of taxes, or savings.

## Gross Income Flow and Its Use, 1941 and 1942.

Estimates of the amount which the people of the United States had available, during the last 2 calendar years, for acquisition of consumers' goods and services,

Table 1.—Estimated Income and Other Funds Available to the People of the United States for Acquisition of Consumers' Goods, Business Capital Purposes, and Support of the Government, 1941 and 1942

Group	1941			1942		
	Total	Income of individuals	Business funds	Total	Income of individuals	Business funds
Gross income flow, total.....	123.4	95.8	32.8	159.5	119.4	40.1
Salaries and wages <sup>1</sup> .....	62.1	62.1	-----	80.9	80.9	-----
Property income of individuals <sup>2</sup> .....	12.3	12.3	-----	12.4	12.4	-----
Personal income from unincorporated business (entrepreneurial income).....	15.5	15.5	-----	20.1	20.1	-----
Other income received by individuals <sup>3</sup> .....	5.9	5.9	-----	6.0	6.0	-----
Undistributed income of corporations, after allowance for tax liabilities.....	3.3	-----	3.3	3.6	-----	3.6
Taxes and related payments by business to government <sup>4</sup> .....	15.5	-----	15.5	21.0	-----	21.0
Excess of business tax liabilities over payments.....	4.6	-----	4.6	5.2	-----	5.2
Depreciation and other allowances and reserves <sup>5</sup> .....	9.4	-----	9.4	10.3	-----	10.3

<sup>1</sup> Including work-relief wages. Excludes subsistence of members of the armed forces.

<sup>2</sup> Interest, dividends, net rents and royalties.

<sup>3</sup> Includes industrial pensions and workmen's compensation, 0.4 billion dollars in 1941 and 0.4 in 1942; pensions, retirement pay, relief, etc., by government and social insurance funds, 2.5 billion dollars in 1941 and 2.6 in 1942; and net-occupancy value of owner-occupied homes, estimated at 3.0 billion dollars for each year.

<sup>4</sup> Includes taxes, social security contributions and nontax payments for fines, fees, etc., included in government revenue.

<sup>5</sup> Includes depreciation and depletion charges, other business reserves, and capital outlays charged to current expense.

<sup>1</sup> In the United States all taxes paid by business concerns except Social Security contributions are excluded from estimates of national income; in the United Kingdom taxes levied on the profits of business concerns are included, but sales taxes, property taxes, and other taxes paid by business concerns are excluded from estimates of national income.

business-capital purposes, and support of the Government are given in table 1. The gross income flow amounted to 128.6 billion dollars in 1941 and to 159.5 billion in 1942. These amounts are, in both years, 33 percent larger than the national income.

How individuals and business concerns used the gross income flow is given in table 2. The percentages of the total spent for consumers' goods and services, and in other ways, are as follows:

	Percentage distribution	
	1941	1942
Consumers' goods and services.....	60	53
Business capital goods, including residences.....	17	6
Taxes, including Social Security and retirement contributions, and fees, fines, and miscellaneous payments to government.....	16	18
Obligations of banks and government (including bank deposits, currency and government securities) and reduction of debt owed to banks or government agencies.....	7	23
Gross income flow.....	100	100

The obligations of banks and government which individuals and business concerns obtained by using, or retaining, part of their income and related funds in this form do not include all of the obligations of banks and government which they acquired. Obligations of banks and government may also be acquired by the sale or pledge of existing property or by an increase in obligations to banks or government.

Table 2.—Use of Gross Income Flow by Individuals and Business, 1941 and 1942

Group	1941			1942		
	Total	By individuals	By business	Total	By individuals	By business
	(Billions of dollars)	(Billions of dollars)	(Billions of dollars)	(Billions of dollars)	(Billions of dollars)	(Billions of dollars)
Total <sup>1</sup> .....	128.0	94.1	33.9	159.4	115.4	44.0
Consumers' goods and services <sup>2</sup> .....	77.6	77.6	—	84.9	84.9	—
Business capital goods, including residences <sup>3</sup> .....	20.8	2.7	18.1	9.4	1.5	7.9
Assets acquired by international transactions, excluding items entering into government and bank obligations—net <sup>4</sup> .....	.5	.5	—	( <sup>5</sup> )	( <sup>5</sup> )	—
Taxes and related payments to government <sup>6</sup> .....	20.3	4.8	15.5	28.9	7.9	21.0
Reduction in indebtedness: To banks <sup>7</sup> .....	( <sup>8</sup> )	( <sup>8</sup> )	( <sup>8</sup> )	3.6	.9	2.7
To government credit agencies <sup>9</sup> .....	.2	.2	( <sup>8</sup> )	.3	.2	.1
Government and bank obligations acquired from use of income flow (table 3).....	8.6	8.3	.3	32.3	20.0	12.3

<sup>1</sup> Unadjusted for changes in obligations of individuals to business concerns, and vice versa. Difference between total expenditures by individuals and business combined and the gross income flow of individuals and business combined (table 1) is due to discrepancies in the statistical materials and errors of estimate.

<sup>2</sup> Includes net-occupancy value of owner-occupied homes, estimated at 3.0 billion dollars each year. Excludes governmental services paid for by fees, etc., included in government nontax revenue.

<sup>3</sup> Includes construction, producers' durable equipment, and business inventories with inventories taken at business evaluation, that is, prior to inventory valuation readjustment in the gross national product. Residential construction attributed to individuals.

<sup>4</sup> Travel and gifts abroad, securities purchased from foreigners, and other investments and banking funds abroad.

<sup>5</sup> Less than 50 million dollars.

<sup>6</sup> Tax and nontax revenue of government (table 6).

<sup>7</sup> Estimated net reduction in 1942 in loans, securities other than government obligations (Federal, State, and local), and miscellaneous assets of commercial and mutual savings banks, based on reduction during first half of year, and on reduction reported by banks members of the Federal Reserve System for second half of year. Attributed to individuals: Reduction in consumer installment credits and single-payment consumer loans of commercial banks.

<sup>8</sup> Increase in indebtedness appears in table 3.

<sup>9</sup> Table 6.

The total acquisitions of government and bank obligations by individuals and business concerns in 1941 and 1942 are estimated in table 3, together with the amount obtained by sale of assets or increase in obligations to banks and the Federal Government, or by net redemption of debt by State and local governments.

Table 3.—Government and Bank Obligations Acquired by Individuals and Business Enterprises, 1941 and 1942

Item	(Billions of dollars)					
	1941			1942		
	Total	By individuals	By business	Total	By individuals	By business
Acquisitions, total.....	13.0	9.2	3.8	35.6	21.5	14.1
Federal Government securities, including guaranteed obligations <sup>1</sup> .....	6.8	3.0	3.8	21.3	10.3	11.0
Currency <sup>2</sup> .....	2.3	2.3	—	4.1	4.0	.1
Bank deposits <sup>3</sup> .....	3.7	3.7	—	10.0	7.0	3.0
Bank capital <sup>4</sup> .....	.2	.2	—	.2	.2	—
Acquired through transactions with governments and banks.....	4.4	.9	3.5	3.3	1.5	1.8
Prepayments received and existing assets sold to Federal Government <sup>5</sup> .....	.8	—	.8	1.8	—	1.8
Redemption of debt and purchase of U. S. Government obligations by State and local governments <sup>6</sup> .....	.6	.6	—	1.5	1.5	—
Increase in indebtedness: To banks <sup>7</sup> .....	2.2	.3	1.9	( <sup>8</sup> )	( <sup>8</sup> )	( <sup>8</sup> )
To government credit corporations <sup>9</sup> .....	.8	( <sup>8</sup> )	.8	( <sup>8</sup> )	( <sup>8</sup> )	( <sup>8</sup> )
Acquired from income and business allowances—balance.....	8.6	8.3	.3	32.3	20.0	12.3

<sup>1</sup> Change in U. S. Government securities, including guaranteed securities, held by private investors (*Treasury Bulletin*), plus change in matured debt and debt bearing no interest, excluding currency items (*Treasury Bulletin*), minus estimated change in United States obligations, including guaranteed obligations, held by commercial and mutual savings banks. Acquired by individuals, estimate by Securities and Exchange Commission.

<sup>2</sup> Change in money in circulation outside of Treasury and Federal Reserve Banks, adjusted for coin and currency held by insured commercial banks. Entire change during 1941, and all but 0.1 billion dollars in 1942, attributed to individuals.

<sup>3</sup> Total for 1941: Change in deposits of individuals, partnerships, and corporations, and certified and officers' checks, etc., in insured commercial banks, plus change in total deposits in noninsured commercial banks and all mutual savings banks, minus change in cash items in process of collection of insured commercial banks. Total for 1942: Change in deposits of individuals, partnerships, and corporations in all commercial and mutual savings banks, as reported in special tabulations for the Treasury, minus estimated change in cash items in process of collection. All of the increase in 1941, and 7.0 billion dollars in 1942, attributed to individuals, on basis of estimates of cash held by business corporations.

<sup>4</sup> Increase in total capital accounts of commercial and mutual savings banks. Amount contributed by business enterprises assumed to be negligible.

<sup>5</sup> Estimated by U. S. Department of Commerce.

<sup>6</sup> This is the difference between estimated tax and nontax revenue and estimated expenditures of State and local government (tables A and B, p. 25 of the March 1943 Survey) minus estimated increase in their cash balances. Since any purchases of Federal Government obligations by State and local government are attributed to individuals and business in the first line of this table, they are included here with repayment of debt by State and local government. Obligations of States and political subdivisions estimated to have been held by banks changed by less than 50 million dollars in each year, so total debt reduction by State and local governments is included here.

<sup>7</sup> Net increase in loans, securities other than government obligations (Federal, State and local), and miscellaneous assets of commercial and mutual savings banks. Attributed to individuals: Increase in consumer installment credits and single-payment consumer loans of commercial banks.

<sup>8</sup> Reduction of indebtedness appears in table 2.

<sup>9</sup> Table 6.

The foregoing analysis of what individuals and business did with the gross income flow does not show how much of the gross income flow was actually used for the support of government. The division of the gross income flow between the three purposes—acquisition of consumers' goods and services, business-capital purposes, and support of the government—is shown in table 4. The percentages of the gross income flow absorbed by these three purposes in the 2 years are as follows:

	Percentage distribution	
	1941	1942
Consumers' goods and services.....	60	53
Capital purposes: i.e., private gross-capital formation.....	17	6
Support of government.....	23	41
Gross income flow.....	100	100

#### Methods of Governmental Absorption of Part of the Gross Income Flow.

Table 4 also shows the methods by which 41 percent of the gross income flow in 1942, and 23 percent in the preceding year, together with the value of existing assets purchased, was absorbed by government. The total amount absorbed by Federal, State and local governments in 1942 was over 66 billion dollars. Of this amount, 29 billion dollars was taken in the form of taxes and related payments to government,<sup>2</sup> 20 billion dollars through sale of Federal Government obligations to individuals and business enterprises, and 17 billion through the mechanism of the banking system.

The portion of the gross income flow which is absorbed by the government through the mechanism of the banking system consists, from the point of view of economic analysis, of two parts. One part is the absorption of income used for the repayment of debts to banks, which amounted to about 3.6 billion dollars in 1942. This is the amount by which sale of Federal Government obligations to banks was offset by reduction in the obligations of other borrowers (individuals, business, and State and local government) to the banks. In 1941 no part of Federal Government financing was of this type, since an increase, rather than a reduction, occurred in the total outstanding obligations of other borrowers to the banks. The other portion of the gross income flow which is absorbed by government through the mechanism of the banking system was absorbed through the process of currency and bank credit expansion. Absorption of income and related funds for government use by this process amounted to 14 billion dollars in 1942, and to 3 billion dollars in the preceding year.

The statement that deficit financing of the government through bank credit and currency expansion is a method of absorption of part of the income of the population may seem a bit curious to those persons who have emphasized the "income-generating" or "income-creating" results of deficit financing. Economists, however, have long known that deficit financing through currency issue or sale of securities to banks in excess of the reduction of other indebtedness to banks is a method of forced loans to the government.

Whether the government levies taxes, borrows directly from individuals and business, borrows from banks with the expectation that banks will expand their deposits, or issues paper currency to finance its

Table 4.—Portion of Gross Income Flow Available for Government Use and Absorbed by Government, 1941 and 1942

[Billions of dollars]		
Item	1941	1942
Gross income flow available for government use:		
Gross income flow (table 1).....	128.6	159.5
Deduct: Expenditures for consumers' goods and services.....	77.6	84.9
Expenditures for business capital goods, including residences.....	20.8	9.4
Monetary metals and other assets acquired by international transactions <sup>1</sup> .....	1.3	( <sup>1</sup> )
Balance: Portion of gross income flow available for government use.....	28.9	65.2
Add: Existing property sold and production pledges given to government.....	.8	1.8
Total available for governmental use.....	29.7	67.0
Gross income flow and related funds absorbed by government:		
By State and local governments: Taxes, adjusted for debt retirement and purchase of United States Government obligations <sup>2</sup> .....	8.9	8.2
By Federal Government, total.....	20.6	58.2
Directly:		
Taxes and related payments (table 6).....	10.3	19.2
Government obligations sold to individuals and business, adjusted for redemption of debt and purchase of U. S. Government obligations by State and local governments (table 2).....	6.2	19.8
Reduction in indebtedness to government credit corporations (table 6).....		.3
Indirectly:		
Via State and local government taxes used for debt retirement and purchase of U. S. Government obligations (table 3).....	.0	1.5
Via reduction in indebtedness to banks with corresponding bank purchase of U. S. Government obligations <sup>3</sup> .....		3.6
Via reduction of indebtedness of banks to Federal Government (table 6).....	.1	.1
Via bank credit and currency expansion, total.....	2.9	13.7
Expansion in currency included in public debt (table 6).....		.2
Expansion in currency and deposits accompanying purchase of U. S. Government obligations by Federal Reserve banks.....	.1	3.9
Expansion in bank deposits accompanying purchase of U. S. Government obligations by commercial and mutual savings banks <sup>4</sup> .....	4.5	16.6
Minus: Currency and deposits held in Treasury (increase in balance in general fund).....	1.7	7.0
Total absorbed by government.....	29.5	66.4

<sup>1</sup> Includes 0.8 billion dollars increase in monetary stock of gold and silver, and 0.5 billion dollars of assets acquired by international transactions not entering into government and bank obligations (table 2).

<sup>2</sup> Less than 50 million dollars.

<sup>3</sup> The adjustment for debt retirement and purchase of U. S. Government obligations by State and local governments is necessary because this represents a part of State and local tax receipts which was indirectly made available to the Federal Government.

<sup>4</sup> This is the estimated net reduction in loans, securities other than U. S. Government obligations, and miscellaneous assets (table 2). Such reduction, if not offset by bank purchases of U. S. Government obligations, would have been accompanied by a reduction in bank deposits.

<sup>5</sup> Difference between increase in U. S. Government obligations held by banks and reduction in other loans, securities, and miscellaneous assets.

activities, the government is in fact taking part of the income created by the people at work. When a government takes income by taxation, that is the end of the process. When a government takes a portion of the gross income flow by borrowing directly from individuals and business concerns, those who turn over part of their income and related funds to the government now are promised a repayment by the taxpayers of the future and are paid interest for refraining from use of that part of their income and related funds for a period of time.

<sup>1</sup> This figure includes Social Security contributions and compulsory retirement-pay deductions; nontax revenue such as fees and fines; and State and local taxes used for retirement of debt or purchase of U. S. Government obligations.

But when a government takes a portion of the gross income flow by expansion of bank deposits or currency, it is taken without exacting any promise from the people that they will refrain from attempting to use the income which the government is taking. Since income and related funds of individuals and business cannot be used both for consumption or business-capital purposes and for support of the government, the attempt to do so is nullified by the process of inflation of prices.

Deficit financing through expansion of bank deposits or currency may, of course, be accompanied by income-generating or income-creating activities of the government. Such generation or creation of income by government is the result of the government's production policy, not of its financing policy. During wartime, the expansion of production is a paramount policy and this expansion generates income and related funds in the hands of individuals and business, regardless of whether government financing results in an expansion of bank deposits or currency. Likewise, in a period of business depression, deficit financing is income-generating to the extent to which it is accompanied by an expansion of the volume of production, and is inflationary but not income-generating to the extent to which it increases the sum of government and nongovernment spending without expanding the volume of production. When deficit financing is accompanied by a policy of restricting or of approval of nongovernmental restriction of production—in contrast to the wartime policy of expanding production to the utmost—it fails to be income-generating.

#### Federal Government Financing and Monetary Expansion.

The relation of Federal Government financing in 1941 and 1942 to the increase in bank deposits and currency in the hands of individuals and business is shown in more detail in table 5. In 1942, approximately three-fourths of Federal Government expenditures, including Social Security and retirement benefits, were financed by methods—taxation, borrowing from individuals and

**Table 5.—Relation of Federal Government Financing to Change in Bank Deposits and Currency Held by Individuals and Business Enterprises, 1941 and 1942—Continued**

[Billions of dollars]

Item	1941	1942
Total increase in bank deposits and currency held by individuals and business enterprises.....	6.0	14.1
Increase resulting from Federal Government financing (see above).....	2.9	13.7
Other transactions affecting (+, increasing; -, decreasing) bank deposits and currency held by individuals and business enterprises, net total.....	+3.1	+4.4
Net increase in loans and investments, other than U. S. Government obligations, of commercial and mutual savings banks (table 3).....	+2.2	.....
Increase in Federal Reserve credit outstanding, excluding change in U. S. Government obligations held.....	.....	+4.4
Monetary use of gold and silver.....	+8	.....
Increase in bank capital.....	-2	-3
International transactions and other factors.....	+3	+2

business, and borrowing from banks to the extent of reduction of debt to banks by other borrowers—which did not result in an expansion of currency and bank deposits in the hands of individuals and business concerns. Nearly one-fourth of the expenditures of the Federal Government was financed by methods which resulted in an increase in currency and bank deposits in the hands of individuals and business. Using the term “inflationary financing” to designate the latter type of financing, the amount and relative proportions of non-inflationary and inflationary financing of the Federal Government in 1941 and in 1942 are given below:

	Billions of dollars		Percent of total	
	1941	1942	1941	1942
Total Federal Government cash expenditures.....	20.5	58.2	100	100
Financed by non-inflationary methods:				
Taxation, including nontax revenue and retirement and Social Security contributions.....	10.8	19.2	53	33
Non-inflationary borrowing.....	6.8	25.3	33	43
Financed by inflationary borrowing.....	2.9	13.7	14	24

#### Inflationary Financing in the United States and the United Kingdom.

Comparison of the methods of government financing in the United States with those in the United Kingdom, and also of the proportions of the gross income flow absorbed by government in the two countries, may be of interest. The proportions of the gross income flow absorbed by consumption expenditures, business-capital purposes, and government in the two countries, in 1941 and in 1942, are given below.

	United Kingdom		Percent of total United States	
	1941	1942	1941	1942
Gross income flow.....	100	100	100	100
Used for consumers' goods and services.....	53	50	60	53
Used for business capital purposes.....	2	--	17	6
Absorbed by government, including local government and social insurance funds.....	45	50	23	41

**Table 5.—Relation of Federal Government Financing to Change in Bank Deposits and Currency Held by Individuals and Business Enterprises, 1941 and 1942**

[Billions of dollars]

Item	1941	1942
Total Federal Government cash expenditures (table 6).....	20.5	58.2
Financed by methods not resulting in increase in bank deposits and currency held by individuals and business enterprises, total.....	17.6	44.5
Taxes and nontax revenue (table 6).....	10.8	19.2
Net collection of loans by credit agencies (table 6).....	.....	.4
Obligations sold to individuals and business enterprises (table 3).....	4.8	21.3
Obligations sold to commercial and mutual savings banks offset by decrease in other bank loans and investments (table 4).....	.....	3.6
Financed by methods resulting in increase in bank deposits and currency held by individuals and business enterprises, total.....	2.9	13.7
Obligations sold to Federal Reserve banks (table 6).....	.1	3.9
Obligations sold to commercial and mutual savings not offset by decrease in other bank loans and investments (table 4).....	4.5	16.6
Increase in currency included in public debt (table 6).....	.....	.2
Minus: Receipts not spent (increase in balance in general fund).....	1.7	7.0

<sup>1</sup> Including obligations purchased by State and local governments.

It should be noted that the portion of the gross income flow absorbed by government in the United Kingdom does not cover all of the expenditures of government in that country. Nearly one-fourth of all government expenditures in the United Kingdom in 1941, and a somewhat smaller portion in 1942, was met by the purchase, or compensation for destruction, of existing property, and thus did not constitute a draft on the gross income flow. This part of the cost of the war included the sale of overseas investments, borrowing abroad, contribution from Canada, and destruction of homes and business property by bombing.

The proportions of the total expenditures of the central governments in the two countries obtained by taxation, noninflationary borrowing, and by inflationary borrowing, in the two years, are given below. For this comparison social-insurance funds are included with central-government financing. Differences in the scope of the social-insurance schemes in operation in the two countries are not sufficient to affect the validity of this comparison.

	Percent of total			
	United Kingdom 1941	United Kingdom 1942	United States 1941	United States 1942
Total expenditures of central government, including social insurance benefits.....	100	100	100	100
Met by taxation and nontax revenue.....	47	50	53	33
Met by non-inflationary borrowing.....	38	42	33	43
Met by inflationary borrowing.....	15	8	14	24

#### Usefulness of Estimates of Gross Income Flow.

Changes in the amount of the gross income flow from year to year cannot be used to indicate changes in the volume of production, since changes in prices, changes in methods of taxation, or changes in the scope of social insurance systems, may affect the amount of the gross income flow. However, annual or quarterly estimates of the gross income flow, and of the portions of the gross income flow absorbed by consumption expenditures, capital purposes, and government, will be found useful for many purposes. They should be particularly valuable for analytical studies of business fluctuations and the relation of monetary and bank credit phenomena to business fluctuations.

Table 6.—Derivation of Items Relating to Government Financing, 1941 and 1942

[Billions of dollars]		
Item	1941	1942
Taxes and nontax revenue of government: <sup>1</sup>		
Total for Federal, State, and local governments.....	20.3	28.9
State and local governments, total.....	9.5	9.7
From individuals.....	1.9	2.0
From business.....	7.6	7.7

Table 6.—Derivation of Items Relating to Government Financing, 1941 and 1942—Continued

[Billions of dollars]		
Item	1941	1942
Taxes and nontax revenue of government—Continued.		
Total for Federal, State, and local governments—Continued.		
Federal Government, including social insurance funds, total.	10.8	19.2
From individuals.....	2.9	5.9
Income taxes.....	1.6	4.1
Other taxes and nontax revenue payments, excluding employment taxes.....	.4	.6
Employment taxes <sup>2</sup> .....	.7	1.9
Interest on social insurance trust fund investments <sup>3</sup> .....	.2	.2
From business.....	7.9	13.3
Income and profits taxes on corporations.....	2.6	7.0
Other taxes and nontax revenue payments, excluding employment taxes.....	3.6	4.3
Employment taxes <sup>4</sup> .....	1.7	2.0
Relation of Federal Government tax and nontax revenue to budget receipts:		
Total budget receipts.....	9.6	17.4
Deduct: Capital transactions in budget receipts.....	.4	.1
Add:		
Employment taxes not in Federal budget.....	1.4	1.7
Interest received by social insurance trust funds on investments.....	.2	.2
Total tax and nontax revenue, as above.....	10.8	19.2
Federal Government borrowing from individuals, business, and banks:		
From Federal Reserve banks <sup>5</sup> .....	.1	3.9
From commercial and mutual savings banks <sup>6</sup> .....	4.5	20.2
From business enterprises other than banks <sup>7</sup> .....	3.8	11.0
From individuals—securities <sup>8</sup> .....	3.6	10.3
From individuals—currency issue <sup>9</sup> .....	(10)	.2
Total.....	11.4	45.5
Relation of Federal Government borrowing from individuals, business, and banks to change in public debt:		
Increase in public debt of the United States:		
Increase (+) or decrease (–) in guaranteed obligations held by private investors.....	+4.4	–2.1
Deduct: Increase in government securities owned by Federal trust funds and government corporations.....	2.0	2.6
Borrowing from individuals, business, and banks.....	11.3	45.5
Net loan transactions of Federal Government corporations and credit agencies, increase (+) or decrease (–):		
By Home Owners' Loan Corporation.....	–.2	–.2
To banks, including preferred stock ownership.....	–.1	–.1
Other loans <sup>11</sup> .....	+8.1	–.1
Total.....	+7.5	–.4
Summary of Federal Government receipts, including social insurance funds and Government corporations and credit agencies, and relation to cash expenditures:		
Taxes and nontax revenue.....	10.8	19.2
Borrowing from individuals, business, and banks.....	11.4	45.5
Net loan transactions of Government corporations and credit agencies.....	(12)	.4
Total receipts <sup>13</sup> .....	22.2	65.2
Deduct: Increase in balance in general fund of the Treasury.....	1.7	7.0
Cash expenditures of Federal Government <sup>14</sup> .....	20.5	58.2
Relation of cash expenditures of Federal Government to budget expenditures:		
Budget expenditures.....	19.1	50.0
Deduct:		
Transfers to trust accounts.....	.4	.5
Appropriations to Government corporations <sup>15</sup> .....	(16)	.2
Add:		
Expenditures from social insurance and other trust funds.....	1.0	16 1.2
Net non-loan transactions of Government corporations and credit agencies <sup>17</sup> .....	.7	16 2.4
Net increase in loans by Government credit corporations and credit agencies.....	.5	(18)
Cash expenditures of Federal Government <sup>19</sup> .....	20.9	58.0
Relation of cash expenditures of Federal Government to Federal budget receipts and financing requirements:		
Net budget receipts.....	8.8	16.4
Net budget deficit.....	10.2	39.6
Net expenditures in trust accounts.....	(20)	.1
Net expenditures in checking accounts of Government agencies other than issuance of obligations, and in miscellaneous funds and accounts.....	1.5	2.1
Cash expenditures of Federal Government.....	20.5	58.2

Footnotes on p. 22.

## Footnotes for table 6, p. 21

<sup>1</sup> From table B, p. 25 of the March 1943 Survey, except for division of total employment taxes between collections from individuals and collections from business and for interest on social insurance trust fund investments.

<sup>2</sup> Portion of total employment taxes collected from individuals: i. e., Social Security contributions of individuals, plus Federal Government employee contributions to retirement funds.

<sup>3</sup> *Treasury Bulletin* and *Annual Report of the Secretary of the Treasury*.

<sup>4</sup> Social Security contributions of employers, from table 15, p. 22, of the March 1943 Survey.

<sup>5</sup> Increase in U. S. Government obligations held by Federal Reserve banks, from *Federal Reserve Bulletin*.

<sup>6</sup> Increase in U. S. Government obligations, including guaranteed obligations, held by commercial and mutual savings banks. Derived from amounts held Dec. 31, 1940 and Dec. 31, 1941, as given in the *Annual Report of the Federal Deposit Insurance Corporation*, and amount held Dec. 31, 1942, estimated from holdings by banks members of the Federal Reserve System and by banks included in Treasury sample for that date.

<sup>7</sup> Change in U. S. Government securities, including guaranteed securities, held by private investors (*Treasury Bulletin*), plus change in matured debt and debt bearing no interest excluding currency items (*Treasury Bulletin*), minus change in U. S. Government obligations, including guaranteed obligations, held by commercial and mutual savings banks, and minus United States securities acquired by individuals as estimated by Securities and Exchange Commission. Purchases of U. S. Government securities attributed to business include purchases by State and local governments. Since the amount of such purchases is unknown, they are combined with the estimated reduction in indebtedness by State and local governments (see table 4).

<sup>8</sup> Estimate by Securities and Exchange Commission.

<sup>9</sup> Change in currency items in public debt (*Treasury Bulletin* and *Daily Statement*).

<sup>10</sup> Decrease of less than 50 million dollars.

<sup>11</sup> Assumed to be loans to business enterprises. Change in loans to States and political subdivisions is omitted from this list because the amount was less than 50 million dollars each year.

<sup>12</sup> Net increase in loans appears among expenditures.

<sup>13</sup> Receipts of Government corporations and credit agencies from operations other than loan transactions, and a corresponding amount of expenditures of such corporations and agencies, are omitted, as in tables A and B, p. 25, of the March 1943 Survey.

<sup>14</sup> From "Sources of funds of certain governmental corporations and credit agencies," *Treasury Bulletin*.

<sup>15</sup> Negative item handled on receipts side of the accounts.

<sup>16</sup> Includes 0.1 billion dollars increase in cash balance of trust funds.

<sup>17</sup> Table A, p. 25, of the March 1943 Survey.

<sup>18</sup> Includes 0.1 billion dollars increase in cash balance of Government corporations and credit agencies.

<sup>19</sup> The reason for the discrepancy between the estimate of cash expenditures of the Federal Government by this method and by the other two methods appears to be due to incompleteness in the published information regarding the operations of government corporations and credit agencies.

<sup>20</sup> Less than 50 million dollars.

## Sources of Data

The items included in gross income flow (table 1), and expenditures for consumers' goods and services and for business-capital goods (table 2), except for the net-occupancy value of owner-occupied homes, are from the estimates of national income and gross national product by the National Income Unit, published in the March 1943 issue of the *Survey*. Net-occupancy value of owner-occupied homes is estimated as follows: Estimated total rental value of 3.6 billion dollars, based on number of such dwellings and average rent or rental value of all occupied dwellings reported by the 1940 Census, minus estimated interest on home-mortgage debt, 0.3 billion dollars, and minus estimated payments for taxes and repairs, 0.3 billion dollars. Inclusion of rental value of owner-occupied homes is desirable for two reasons: (1) to include the incomes and expenditures of home owners and of renters on a comparable basis; and (2) to improve the comparability of the data for the United States with that for other countries such as the United Kingdom, in which imputed rental of owner-occupied homes is included in estimates of national income.

Table 7.—Relation of Gross Income Flow to National Income and to Gross National Product

(Billions of dollars)

Item	1941	1942
Relation of gross income flow to national income:		
National income.....	95.6	119.8
Deduct: Portion of "other labor income" consisting of pensions and contributions to employee retirement funds by Government.....	.4	.4
Add:		
Transfer payments by Government and social insurance funds.....	2.5	2.0
Net occupancy value of owner-occupied homes.....	3.0	3.0
Business tax and nontax liabilities (Social Security contributions excluded).....	18.3	24.2
Depreciation and other business allowances and reserves.....	9.4	10.3
Rounding difference.....	.2	
Gross income flow.....	128.6	159.5

Table 7.—Relation of Gross Income Flow to National Income and to Gross National Product—Continued

(Billions of dollars)

Item	1941	1942
Relation of gross income flow to gross national product:		
Gross national product.....	119.0	151.6
Eliminate inventory valuation adjustment and adjustment for discrepancies.....	4.2	2.8
Add:		
Net occupancy value of owner-occupied homes.....	3.0	3.0
Excess of transfer payments by Government and social insurance funds over Government portion of "other labor income".....	2.1	2.2
Rounding difference.....	.3	-.1
Gross income flow.....	128.6	159.5
Relation of items of use of gross income flow (tables 2 and 4) with gross national product:		
Gross national product.....	119.0	151.6
Differences relating to consumers' goods and services:		
Add: Net occupancy value of owner-occupied homes.....	3.0	3.0
Differences relating to private gross capital formation:		
Add:		
Inventory revaluation adjustment.....	3.2	1.9
Assets acquired by international transactions, excluding items entering into Government and bank obligations (table 2).....	.5	
Increase in monetary stock of gold and silver.....	.8	
Deduct:		
Net exports of goods and services.....	.9	.4
Net exports and monetary use of gold and silver.....	.2	.1
Differences relating to Government expenditures:		
Add:		
Offshore expenditures, etc. <sup>1</sup> .....	2.5	.9
Transfer payments by Government.....	.1	2.6
Refunds of taxes and duties.....	.1	.1
Deduct: Difference in estimates of expenditures of Government corporations from Treasury funds <sup>2</sup> .....	.4	.7
Adjustment for discrepancies among tables 2, 3, and 4 <sup>3</sup> .....	.4	.4
Rounding difference.....		.1
Total use of gross income flow (table 2).....	128.0	159.4

<sup>1</sup> This is line 13, table A, p. 25, in the March 1943 Survey, excluding prepayments and purchase of existing assets.

<sup>2</sup> This is the difference referred to in footnote 19, table 6.

<sup>3</sup> This adjustment is due to differences between the figures from banking and currency data in tables 2 and 3, and figures for Government expenditures in tables 4 and 6. The difference may be due to incomplete information on international transactions, or to other errors of estimate.

The figures for tax and nontax revenue of Federal and State and local governments, except for the item of interest on social insurance trust fund investments, are also from the figures prepared by the National Income Unit published in the March 1943 issue of the *Survey*. Net non-loan transactions of government corporations are from the same source. Other items relating to Federal Government accounts, including those relating to government corporations, are derived from figures published in the *Treasury Bulletin* or *Daily Statement*.

Data relating to banks and to currency, except for those involving bank deposits at the end of the year 1942 are from the *Annual Report of the Federal Deposit Insurance Corporation*, the *Federal Reserve Bulletin*, or the *Treasury Daily Statement*. Figures for bank deposits at the end of 1942, used in deriving estimates of changes during the year, are based on data for banks members of the Federal Reserve System and advance tabulations of certain items prepared by the banking agencies for the Treasury. Estimates of bank deposits and currency held by individuals and by business, respectively, are derived in part from estimates by the Securities and Exchange Commission.

Figures for the United Kingdom used in computing the ratios in this article are from an unpublished analysis of the gross income flow in that country, prepared by the author of this article, similar to the analysis presented here for the United States. The data used in the analysis for the United Kingdom are from Cmd. 6347, "An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1933, 1940, and 1941," *The Economist*, *The Stock Exchange Gazette* *British and International Banking Number*, 1942, and articles in the *Economic Journal* and *Economica*.

The terms "business" and "business concerns," as used in this article, include social organizations such as churches, endowed institutions, clubs, and other non-profit associations. The line of demarcation, in tables 1, 2, and 3, between individuals and business is not uniformly drawn, because of the inadequacy of data. In general, taxes collected from, and loans to, farmers and other unincorporated business concerns, except income taxes, are treated as business taxes or loans.